

GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of North Shore Bank of Commerce, Duluth, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of July 8, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated "Outstanding."

The CRA evaluation revealed several factors that support rating the bank's CRA performance outstanding. First, the bank's loan-to-deposit ratio is high and evidenced a continuously improving trend since the last evaluation. Second, the bank has originated a majority of its loans to assessment area residents and businesses. Third, the bank actively extends loans to low- and moderate-income individuals and small businesses. Finally, the bank lends to persons and businesses throughout the assessment area and actively originates loans to businesses located in low-income census tracts.

The following table indicates the performance level of North Shore Bank of Commerce, Duluth, Minnesota, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	NORTH SHORE BANK OF COMMERCE DULUTH, MINNESOTA PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	No CRA complaints were received since the previous evaluation.		

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank effectively meets the credit needs of residents and businesses located within its assessment area. The prior CRA evaluation, also performed by the Federal Reserve Bank of Minneapolis, similarly revealed that the bank's performance in meeting community credit needs was outstanding. The bank operates five full-service offices and six automated teller machines ("ATMs") throughout the assessment area, including ATMs in a grocery store and convenience store in Duluth. The main office is located in Duluth's downtown commercial district. The bank operates full-service branches at 4801 East Superior Street, 17 Calvery Road, and 1600 Miller Trunk Highway in Duluth and one full-service branch in Hermantown. It also operates a mortgage loan production office in Cloquet, Minnesota.

According to its June 30, 1996, Report of Condition ("ROC"), the bank's assets totaled approximately \$111 million. The June 30, 1996, ROC indicates that the bank is primarily a residential real estate and commercial lender; the bank's loan portfolio is composed of 51% consumer real estate and 41% commercial loans. Consumer loans make up the balance of the bank's loan portfolio. The composition of the bank's loan portfolio reflects the level of demand for specific types of loans by members and businesses of the assessment area.

The bank offers a variety of loan products to fulfill the credit needs of the residents and businesses within its assessment area. Prior to the last evaluation, bank management decided to devote significant resources to developing a residential real estate loan department. With the establishment of this loan department, the bank committed to developing its market share of the Duluth consumer real estate credit market. Toward this end, the bank offers a variety of consumer real estate credit products, including construction, mobile home, Federal Housing Administration ("FHA"), Department of Veteran Affairs ("VA"), FHA Title I home improvement, Minnesota Housing Finance Agency ("MHFA"), and conventional closed-end loans. Its open-end credit products include home equity lines of credit. It also offers home improvement loans up to 110% of the value of the home.

In addition to its consumer real estate products, the bank offers consumer and commercial loans. One of its commercial credit products is Small Business Administration loans. All of its loan products have flexible terms in order to meet the credit needs of the community. Since the last evaluation, the bank recognized that numerous borrowers repeatedly applied for small consumer loans. To serve this sector of the community better, the bank developed a personal line of credit for consumers. It continues to offer small, closed-end consumer loans but directs appropriate borrowers to the personal line of credit as a more cost-effective means of accessing credit. The bank's other open-end, consumer loan products include credit cards and overdraft lines of credit. It also offers traditional single-payment and installment loans for consumer purposes.

The bank has originated loans under several special loan programs to benefit low- and moderate-income persons since the last evaluation. The bank has originated loans through a nonprofit group that facilitates the purchase of residential real estate by low- and moderate-income families. The nonprofit group purchases and rehabilitates homes, which are then sold to qualifying families. The organization sells only the house, not the real property, which is held in trust. When the house is sold, purchasers only pay for the value of the home, making the acquisition more affordable. The bank originates the purchase-money, residential mortgages under this program.

The bank also participates in the Central Hillside First-Time Homebuyers Program. This program is sponsored by the MHFA and the city of Duluth. The bank has committed to extending \$900,000 in loans for the purchase of one- and two-family owner-occupied residences located in the Central Hillside neighborhood. This neighborhood is Duluth's low- and moderate-income area.

The bank is the exclusive administrator of loans originated pursuant to this program.

The bank is also the exclusive administrator of loans originated pursuant to the Target Census Tract Program for St. Louis County. This loan program facilitates the acquisition of residential property located in St. Louis County census tracts 12, 13, 16, 17, 18, 19, 25, 27, 28, 32, and 33. The program benefits households with adjusted incomes of \$28,000 or less. Under this program, the bank originates low-interest loans and borrowers may qualify for low down payments or down payment assistance.

The bank also originates loans under several other programs administered by the MHFA. It participates in purchase/rehabilitation residential loan programs that will permit persons to buy older homes with sufficient funds to make improvements. This loan program does not have any income restrictions but is expected to benefit low- and moderate-income persons. The bank also participates in MHFA's Mortgage, Home Improvement Loan, and the Low Cost Home Energy Loan programs.

DESCRIPTION OF NORTH SHORE BANK OF COMMERCE'S ASSESSMENT AREA

Although the bank operates one main office, four branches, and one loan production office, it has defined only one assessment area for purposes of CRA. The bank's assessment area is the southern section of St. Louis County, Minnesota, which is located on the shore of Lake Superior, approximately 150 miles north of Minneapolis-St. Paul, Minnesota. As such, it is located in, but includes only part of the Duluth, Minnesota/Superior, Wisconsin, metropolitan statistical area ("MSA"). The assessment area does not include Cloquet, Minnesota. The bank's assessment area has a population of 122,295, according to 1990 census data, and includes the cities of Duluth, Hermantown, and Proctor. The MSA population is 239,971. Based on a 1995 preliminary estimate, the city of Duluth's population has stabilized at 85,665.

The MSA includes a section of the Fond du Lac Indian Reservation ("Reservation"), which is located in north-central Carlton County and borders southern St. Louis County. A small section of the Reservation, where the tribal government operates a casino, is located in Duluth. The bank's assessment area includes the section of the Reservation that is located in Duluth but borders on the rural portion of the Reservation, which is located south of the assessment area. The Reservation residents generally obtain bank services from financial institutions located in Cloquet, Minnesota, due to its proximity to the Reservation.

CRA divides income levels into four categories: low, moderate, middle, and upper income. Because the bank's assessment area is located in an MSA, the categorization of a borrower or census tract's income is determined relative to the MSA median family income. Pursuant to CRA's definitions, low-income individuals have incomes of less than 50% of the MSA median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines middle-income individuals as persons with incomes of at least 80% but less than 120% of the MSA median family income. Individuals with incomes of 120% or more of the MSA median family income are classified as upper-income persons. Census tracts are classified using similar categories based on the level of the median family income in the geography. According to the 1995 updated census data, the median family income for the Duluth, Minnesota/Superior, Wisconsin, MSA is \$36,300.

The bank's assessment area is 47 census tracts. Based on 1990 census data, it includes eight low-income census tracts: 16, 17, 19, 22.99, 25, 25.99, 28, and 32. The total population in the low-income tracts is 7,755 with two tracts, 22.99 and 25.99, having a population of 10 or fewer persons. The assessment area also includes 10 moderate-income tracts: 12, 13, 14, 18, 20,

24, 26, 27, 33, and 37. These tracts have a total population of 18,943. The other sectors of the assessment area are defined as middle- and upper-income areas and include the following census tracts: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 22, 23, 29, 30, 31, 34, 36, 38, 101, 102, 103, 104, 105, 106, 111, 112, 113, and 114. These tracts have a total population of 95,597.

According to 1990 U.S. Census data, the assessment area's median family income is \$32,065, while its median household income is \$25,168. There are 31,195 families and 47,621 households in the bank's assessment area. Approximately 10% of the families and 15% of the households residing in the assessment area have incomes below the poverty level. The number of families and households with incomes below the poverty level within the assessment area is fewer than such families and households in the entire MSA but more than those statewide. The distribution of family and household income for the assessment area is summarized in the following table.

ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Households Compared to Median Household Income	24%	15%	17%	44%
Families Compared to Median Family Income	18%	17%	23%	42%

The city of Duluth's Department of Planning & Development's Community Development & Housing Division has conducted a review of equal housing opportunities in Duluth. It has issued a report entitled Analysis of Impediments and Fair Housing Plan for the City of Duluth ("Analysis"). The Analysis findings indicate that there are several impediments to equal housing in the Duluth market. Some of these impediments are economic while others indicated potential illegal discrimination. The Analysis states that affordable housing, poverty, and deteriorating housing stock are among the economic barriers limiting equal housing opportunities. The Analysis also states that "[t]here is a belief among housing advocates and providers that discrimination on the basis of race, familial status, receipt of public assistance, and disability . . ." is a problem in Duluth. The Analysis, however, appears to focus primarily on rental property issues. With respect to lender activity, the report notes that the denial rate for minority applicants warrants further investigation and states that there is a need for rental property rehabilitation financing in the area. The Analysis did not find that any particular financial institution had engaged in illegal discrimination.

The Analysis findings state that the Duluth's low-income households spend a disproportionate amount of income on housing-related expenses. It also states that low-income households cannot afford most of the existing housing stock in Duluth. According to bank management, real property values in Duluth are typically low; however, in 1992 prices increased significantly and remained high for approximately two years. Currently, real property values have stabilized and are increasing at a rate of .25% per month. Community contacts familiar with the housing situation in Duluth noted that much of the city's housing stock is in need of substantial renovation. The lack of adequate housing for low- and moderate-income residents, whether rental or owner-occupied, was identified as a significant issue for the area by several community representatives. The city of Duluth and local lenders have been partners in attempting to address this problem with special loan programs targeted to low- and moderate-income persons.

Numerous bank and nonbank financial institutions serve the credit needs of residents and businesses located in the Duluth area. The city is served by 16 bank and nonbank lenders, making the market for financial services very competitive. The nonbank lenders include mortgage companies and credit unions. According to the Home Mortgage Disclosure Act ("HMDA") data for the assessment area, the bank is among the top three local residential housing lenders, defined as banks combined with affiliate mortgage companies. With respect to commercial lending in the Duluth market, loan pricing is very sensitive due to the presence of two multistate regional banks.

According to bank management, the Duluth economy is fairly stable, and the unemployment rate is considered low. The local economy is reasonably diversified with tourism, higher education, and medical care facilities representing the area's largest employers. According to census data, in St. Louis County, 96% of the businesses employ 49 or fewer employees. The retail trade and service industries represent 66% of local business establishments and employ 63% of St. Louis County employees. Those employed in these industries are generally less well paid than those in technical fields. In general, the Duluth job market does not have a significant number of high paying technical jobs. Recently, commercial development efforts appear to be directed toward attracting such employers to the Duluth market.

Examiners contacted several government officials and community services groups as part of the bank's CRA evaluation. Information from these contacts was used in evaluation the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs in its assessment area is considered outstanding. The following criteria were analyzed to determine

this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio exceeds the standards for satisfactory performance. The bank's quarterly loan-to-deposit ratio has fluctuated between 60% and 73% since the last evaluation. Based on the March 31, 1996 Uniform Bank Performance data, the bank's loan-to-deposit ratio of 69% ranks the bank in the 51st percentile in comparison with its peers. Based on the data for the seven calendar quarters since the last evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 66%. The following chart summarizes the bank's quarterly loan-to-deposit ratio and its components since the last evaluation, dated October 12, 1994.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	NET LOAN-TO- DEPOSIT RATIO
December 31, 1994	\$57,380	\$96,177	60%
March 31, 1995	\$60,336	\$99,565	61%
June 30, 1995	\$64,830	\$96,588	67%
September 30, 1995	\$66,444	\$98,699	67%
December 31, 1995	\$69,113	\$101,045	68%
March 31, 1996	\$70,431	\$101,690	69%
June 30, 1996	\$74,950	\$102,685	73%

The bank's average loan-to-deposit ratio is comparable to the quarterly average ratios of its local competitors. Based on quarterly ROC data from December 31, 1994, to June 30, 1996, the following table identifies the asset size and quarterly average loan-to-deposit ratios for the bank and its competitors.

BANK AND LOCATION	TOTAL ASSETS (June 30, 1996) (In thousands)	QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIO
North Shore Bank of Commerce Duluth, Minnesota	\$111,083	66%
Competitor A Duluth, Minnesota	\$ 76,251	67%
Competitor B Duluth, Minnesota	\$ 69,424	79%
Competitor C Duluth, Minnesota	\$ 63,353	70%
Competitor D Duluth, Minnesota	\$ 17,439	63%

In addition to the competitor banks listed above, several nonbank entities extend credit to residents and businesses within the bank's assessment area. The many financial institutions operating within the bank's assessment area create a very competitive credit market for the types of loans offered by the bank. As reflected by the competitor data, it appears that the demand for credit in the Duluth market is strong, and local banks are willing to extend credit to fulfill the needs of local residents and businesses.

As the competitor data show, the bank does not compete against any similarly sized banks in the Duluth area. The bank's quarterly average loan-to-deposit ratio is lower than three of its smaller competitors. The bank's loan-to-deposit ratio, however, does not reflect the sale of residential real estate loans to the secondary loan market. The bank actively engages in this activity, and its loan-to-deposit ratio would increase between 3% to 8% if such loans were reflected in its loan-to-deposit ratio set forth above. The bank's quarterly average loan-to-deposit ratio, including loans sold during each calendar quarter since the last evaluation, is 72%.

Since the last evaluation, the bank has experienced significant growth in its loan portfolio. On September 30, 1994, the bank's net loans, exclusive of loans sold on the secondary market, totaled approximately \$56 million. By June 30, 1996, the loan portfolio had increased by 34% to approximately \$75 million. Its ROC data shows that the bank has consistently increased the size of its loan portfolio in each quarter since the last evaluation. None of the bank's local competitors have sustained such consistent loan growth during the same time period. Since September 30, 1994, the competitors' loan portfolios have increased between 2% and 39%.

The bank's loan-to-deposit ratio exceeds the standards for a satisfactory rating. The bank has successfully increased its loan portfolio in each quarter since the last evaluation. It has accomplished this continuous growth through actively selling loans to the secondary market. The bank's average quarterly loan-to-deposit ratio reflects the earlier periods when the loan portfolio was significantly lower. Based on discussions with management, it appears that the loan-to-deposit ratio in more recent quarters more accurately depicts the bank's lending performance. Consequently, despite the fact that other local competitors have a higher quarterly average loan-to-deposit ratio, the bank's lending activity exceeds that standards for a satisfactory rating in this category.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity within its assessment area exceeds the standards for satisfactory performance. For the loans sampled during the evaluation, the bank made a substantial majority of its originations to residents and businesses of its assessment area. The table below shows the percentage of

the bank's consumer, overdraft checking, home improvement, residential real estate purchase money, residential real estate refinance, and commercial loans that were extended to members of the assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Amount of Loans
Consumer	94	93
Overdraft Checking	100	100
Home Improvement	100	100
Residential Real Estate Purchase Money	99	99
Residential Real Estate Refinance	99	99
Commercial	86	68

The data are based on a statistical sampling of consumer, overdraft checking, and commercial loans originated in the six months before the evaluation. The residential real estate purchase money, refinance, and home improvement data are based on 100% of the bank's 1995 HMDA data. The percentage of commercial loan originations within the assessment area is somewhat lower than the consumer loans because the sample includes a number of loans to a business which supports commercial tourism activity inside the assessment area but is located outside the assessment area.

In 1994 and 1995, the bank reported 497 and 456 HMDA loans, respectively. In 1994, the bank approved 83% of the HMDA loan applications from residents of the assessment area. Its origination rate to assessment area residents increased slightly to 84% in 1995. The bank's HMDA loan approval rate exceeded that of all lenders in the assessment area in 1994 and 1995. The MSA's aggregate lenders' origination rates averaged 80% and 77% in 1994 and 1995, respectively.

As the data indicate, the bank's lending activity is concentrated within the assessment area. Accordingly, the bank's lending exceeds this category's standard for satisfactory performance.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank's level of lending to individuals of different incomes and to businesses of different sizes exceeds the standards for satisfactory performance. As discussed, the CRA classifies income levels into four categories: low, moderate, middle, and upper income. The 1990 median household and family incomes for the bank's assessment area are \$25,168 and \$32,065, respectively. Both figures are higher than the 1990 MSA median household and family incomes of \$23,690 and \$30,561, respectively.

The following table shows the percentage of the sampled loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVELS*				
Loan Type	Low- Income Borrowers	Moderate- Income Borrowers	Middle- Income Borrowers	Upper- Income Borrowers
<u>Consumer</u>				
Total Number of Loans	22%	21%	28%	29%
Total Amount of Loans	21%	15%	22%	23%
<u>Overdraft Checking</u>				
Total Number of Loans	14%	24%	24%	38%
Total Amount of Loans	10%	22%	19%	41%
<u>Home Improvement</u>				
Total Number of Loans	13%	23%	28%	36%
Total Amount of Loans	9%	13%	23%	55%
<u>Residential Real Estate Purchase Money</u>				
Total Number of Loans	14%	22%	27%	37%
Total Amount of Loans	9%	15%	25%	48%
<u>Residential Real Estate Refinance</u>				
Total Number of Loans	7%	16%	23%	54%
Total Amount of Loans	2%	10%	16%	67%
*Income level is determined based on the 1995 median family income for the Duluth, Minnesota/Superior, Wisconsin, MSA of \$36,300.				

The data reveals that the bank extends a large percentage of its consumer loans to low- and moderate-income borrowers. Segregated by the categories set forth in the table, these loans represented the following percentage of the total number and amount of loans in the sample.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA TO LOW- AND MODERATE-INCOME BORROWERS	
Loan Type	Low- and Moderate-Income Borrowers
<u>Consumer</u>	
Total Number of Loans	43%
Total Amount of Loans	36%
<u>Overdraft Checking</u>	
Total Number of Loans	38%
Total Amount of Loans	32%
<u>Home Improvement</u>	
Total Number of Loans	36%
Total Amount of Loans	22%
<u>Residential Real Estate Purchase Money</u>	
Total Number of Loans	36%
Total Amount of Loans	24%
<u>Residential Real Estate Refinance</u>	
Total Number of Loans	23%
Total Amount of Loans	12%
*Income level is determined based on the 1995 median family income for the Duluth, Minnesota/Superior, Wisconsin, MSA of \$36,300.	

1990 census data show that low- and moderate-income households comprise 39% of the assessment area population while such families comprise 36% of the same area. More specifically, low- and moderate-income households represent 24% and 15%, respectively, of the local population. Low-income families represent 18% and moderate-income families represent 17% of the assessment area population. Thus, the bank's consumer lending to low- and moderate-income borrowers generally equals or exceeds the representation of such persons in the assessment area.

Based on 1994 and 1995 HMDA data, the bank originates HMDA loans to low- and moderate-income applicants. In 1994, the bank received 212 applications and originated 168 loans to such applicants. These numbers declined slightly in 1995 when the bank received 208 applications and originated 163 loans to low- and moderate-income persons. These applications represented 37% and 35% of the bank's HMDA loan applications in 1994 and 1995, respectively. During this same period, however, the bank approved but did not originate two loans to low- and moderate-income applicants. In each year, the bank approved 79% of HMDA loan applications from such persons. During these same periods, the information for all lenders in the assessment area shows that 30% of HMDA loan applications were from low- and moderate-income persons and 71% and 66% of these applications resulted in loan originations in 1994 and 1995, respectively. Based on these data, the bank's HMDA loan activity to low- and moderate-income borrowers exceeds that of other lenders in the assessment area.

Based on the loans sampled during the evaluation, the bank originates a substantial majority of its commercial loans to small businesses. In addition, almost all of the sampled loans had loan amounts of \$100,000 or less. The following table shows the distribution of the bank's commercial loans to small businesses.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA TO SMALL BUSINESS BORROWERS*			
	LOAN AMOUNT		
	Less than \$100,000	\$100,000 to \$250,000	\$250,000 to \$1,000,000
Total Number of Loans to Small Businesses	51	4	0
Total Number of Loans to Small Businesses as a Percentage of Sample	81	80	0
Total Amount of Loans to Small Businesses as a Percentage of Sample	93	7	0
*Small businesses are defined as business with gross annual revenues of less than \$1,000,000.			

Based on the income distribution of the bank's consumer borrowers, loans to small businesses, and demographics of the assessment area, the bank's level of lending to low- and moderate-income borrowers and small businesses exceeds the standards for satisfactory performance.

Geographic Distribution of Loans

The distribution of the bank's loans throughout the assessment area exceeds the standards for satisfactory performance. As previously discussed, the bank's assessment area is located in an MSA and includes eight low-income and ten moderate-income census tracts. The bank's main office is located in a low-income census tract, which is in Duluth's commercial district. The following table shows the distribution of the bank's consumer and commercial loans in those low-, moderate-, middle- and upper-income census tracts located within the assessment area.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CENSUS TRACT INCOME LEVEL				
Loan Type	Low- Income Census Tract	Moderate- Income Census Tract	Middle- Income Census Tract	Upper-Income Census Tract
<u>Consumer</u>				
Total Number of Loans	1%	8%	45%	45%
Total Amount of Loans	0%	13%	38%	49%
<u>Overdraft Checking</u>				
Total Number of Loans	3%	10%	50%	37%
Total Amount of Loans	2%	11%	46%	41%
<u>Home Improvement</u>				

Total Number of Loans	1%	6%	59%	34%
Total Amount of Loans	0%	8%	55%	37%
<u>Residential Real Estate Purchase Money</u>				
Total Number of Loans	4%	20%	43%	34%
Total Amount of Loans	2%	14%	46%	38%
<u>Residential Real Estate Refinance</u>				
Total Number of Loans	2%	6%	58%	34%
Total Amount of Loans	2%	4%	56%	38%
<u>Commercial</u>				
Total Number of Loans	37%	9%	36%	19%
Total Amount of Loans	51%	13%	22%	15%

The bank's consumer lending performance in the low- and moderate-income census tracts is merely reasonable considering the representation of residents in these tracts as compared to the total assessment area population. The total population in the low-income census tracts within the assessment area is 7,755, which is 6% of the total assessment area population. The total population in the moderate-income census tracts is 18,943, which is 15% of the total assessment area population.

Based on 1994 and 1995 HMDA data, the bank originates HMDA loans to applicants residing in low- and moderate-income census tracts. In 1994, the bank received 85 applications and originated 67 loans to such applicants. These numbers improved in 1995 when the bank received 89 applications and originated 78 loans to persons residing in low- and moderate-income census tracts. In each year, approximately 15% of the bank's HMDA loan applications were from such persons. Further, the bank's origination rates for loans to these persons were 79% and 88% for 1994 and 1995, respectively. During these same periods, the information for all lenders in the assessment area shows that 14% of HMDA loan applications were from persons residing in low- and moderate-income census tracts and 76% and 73% of these applications resulted in loan originations in 1994 and 1995, respectively.

As the data indicate, the bank actively originates loans to small businesses located in low-income census tracts within its assessment area. As previously noted, small businesses, defined for this purpose as establishments employing fewer than 50 employees, represent approximately 96% of the businesses operating in St. Louis County. Numerous businesses are located in the downtown commercial district, which includes parts of census tracts 16, 18, 19, and 20. Each of these tracts is defined as low- or moderate-income census tracts.

Although the bank's consumer lending performance is reasonable considering population demographics, the commercial loan activity supports and exceeds satisfactory rating for this category. At 41% of the loan portfolio, commercial loans represent the bank's second largest loan category. Further, the bank's HMDA data shows that the bank is outperforming other consumer real estate lenders in the assessment area.

Services and Investments

The bank operates five full-service offices throughout its assessment area. The main office is located in a low-income census tract in the Duluth's downtown commercial district. The main office is open from 8:30 a.m. to 5:00 p.m. during the business week. Its drive-in services are available from

8:00 a.m. to 6:00 p.m. during the business week and from 9:00 a.m. to noon on Saturday. Since the last evaluation, the bank installed an deposit-taking ATM at the main office in order to increase the availability of its services to deposit customers. The bank also operates a cash disbursement ATM in one other low-income census tract in Duluth.

In addition to providing its services at the main offices, branches, and ATMs, bank customers can access credit and loan information by telephone. The bank provides customers with a toll-free telephone number. In addition to accessing account information, the bank's commercial customers can electronically transfer funds from lines of credit to deposit accounts.

Since the last evaluation, the bank has developed several new deposit and credit account products. Two such deposit account products are the Small Business Checking Account and the Community Checking Account. Through these accounts, the bank offers special fee arrangements to small businesses and community/nonprofit organizations. Since the last evaluation, the bank has

also developed the Business Ready Money Line of Credit, which can be approved directly by branch loan officers for the customer's convenience. Approved borrowers use this product for overdraft protection on commercial accounts.

A bank representative serves on the Duluth 1200 Fund Inc.'s loan committee. This loan program finances commercial loans for small businesses that otherwise would not have access to credit. Under this program, the city and a local financial institution each fund 50% of approved loans. The city's loan is extended at an interest rate of 5%. The bank representative who serves on the funds loan committee provides technical credit underwriting expertise during the approval process.

Since the last evaluation, the bank has made numerous contributions to organizations that serve low- and moderate-income individuals. The bank's services and investments lend additional support to the Outstanding CRA performance. While these activities augment the CRA program, the Outstanding rating is assigned due to the bank's strong lending performance.

General

The evaluation did not reveal any credit practices that are inconsistent with the substantive provisions of the fair housing and fair lending laws and regulations. It did reveal violations of the technical reporting requirements of the HMDA's Regulation C. During the evaluation, management promised prompt corrective action.

The bank has not received any CRA complaints since the previous evaluation.

PUBLIC DISCLOSURE

July 8, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

North Shore Bank of Commerce
Name of Depository Institution

092716750000
Identification Number of Institution

Duluth, Minnesota
Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.